

## Export Controls For Technologies Described in U.S. Invention Disclosures

By Karen Canaan

The August 2008 issue of Patent Strategy & Management included the article “*Patent Application Foreign Filing Licenses: Export Control for Sensitive Technologies Described in Patent Applications*” discussing the patent application foreign filing license requirements for various countries, including the United States. As the issue went to press, the Director of the U.S. Patent and Trademark Office (“USPTO”) issued a Federal Register Notice warning patent applicants that the exportation of information relating to technologies developed in the United States to foreign countries for purposes of preparing patent applications to be filed in the United States is subject to clearance review by the Bureau of Industry and Security (“BIS”) of the U.S. Department of Commerce. 73 Fed. Reg. 142 (July 23, 2008).

### TWO CASE STUDIES

In the article published last month, Case Study Nos. 3 and 4 presented scenarios where U.S. invention disclosures were forwarded to foreign countries prior to the filing of the corresponding patent applications in the United States. Case Study No. 3

involved a U.S. company sending U.S. invention disclosures to an Indian technology center for the preparation of U.S. patent applications, and Case Study No. 4 involved the U.S. subsidiary of a German company sending U.S. invention disclosures to the German parent company for review by the company’s Patent Committee. As noted in the paper, the scenarios did not run afoul of the U.S. patent application foreign filing license requirements.

While the scenarios in Case Study Nos. 3 and 4 fall outside of the U.S. patent application foreign filing license requirements, they fall within the export control procedures put into place by BIS and referenced in the USPTO Notice.

BIS promulgates, implements, and enforces the Export Administration Regulations (“EAR”), which are codified at 15 C.F.R. §§730-774. Technologies that are subject to the EAR are set forth in the Commerce Control List (“CCL”), which is found in Supplement No. 1 to 15 C.F.R. §774. The CCL includes a lengthy listing of technologies, which are categorized as follows: nuclear materials, facilities, and equipment (Category 0); chemicals, microorganisms, and toxins (Category 1); materials (Category 2); electronics (Category 3); computers (Category 4); telecommunications (Category 5, Part 1); information security technologies (Category 5, Part 2); sensors and lasers (Category 6); navigation technologies and avionics (Category 7); marine technologies (Category 8); and propulsion systems, space vehicles,

and related equipment (Category 9). *See, also*, 15 C.F.R. §738.2(a).

As evidenced by the terms of the enforcement provision (15 C.F.R. §764), strict compliance with the EAR is necessary for any person or company engaging in the export of technologies that are listed in the CCL. Noncompliance and/or violation of the EAR subjects the offending party to civil, criminal, and/or statutory sanctions (15 C.F.R. §764.3). Criminal penalties for violation of the EAR are harsh, with knowing violations subject to fines of up to \$50,000 or imprisonment of up to five years or both (15 C.F.R. §764.3(b)(1)), and willful violations subject to fines of up to \$1 million (\$250,000 for an individual) or imprisonment of up to 10 years or both (15 C.F.R. §764.3(b)(2)(i)). Where the noncompliance and/or violation is related to the export of proprietary technologies that are subsequently part of a U.S. patent application, the resulting issued U.S. patent may be deemed invalid and/or unenforceable as a result of the offense.

Section 738 of the EAR provides an overview of the CCL as well as a tutorial to readers on how to classify an item against the CCL. Section 738.2 explains that within each category of the CCL, items are arranged according to one of five groups: equipment, assemblies, and components (Group A); test, inspection, and production equipment (Group B); materials (Group C); software (Group D); and technology (Group E). 15 C.F.R. §738.2(b).

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Section 738.1 of the EAR cautions that the CCL only includes items that are subject to the export licensing authority of BIS and does not include items that are exclusively controlled for export or re-export by another department or agency of the U.S. government. Notwithstanding the cautionary note, where items not under BIS control are related to items that are under BIS control, the CCL includes entries for the items that are outside of BIS control and clearly identifies the governmental agencies that should be contacted for clearance review. For example, with reference to the CCL, the first item in Category 0, Group A, is "nuclear reactors," which is identified by Export Control Classification Number ("ECCN") 0A001, and the first item in Category 0, Group B, is "plant for the separation of isotopes ...," which is identified by ECCN 0B001. The entries for both of these ECCNs indicate that the items are subject to the export licensing authority of the Nuclear Regulatory Commission at 10 C.F.R. §110.

With reference to the numerals in the ECCN, the digit immediately following the Group letter is referred to as "the second digit," e.g., 0A001, 0B001. The second digit identifies the Reasons for Control of the item associated with the ECCN according to the following numbering system: national security reasons (0); missile technology reasons (1); nuclear nonproliferation reasons (2); chemical and biological weapons (3); and anti-terrorism, crime control, regional stability, short supply, UN sanctions, etc. (9). 15 C.F.R. §738.2(d)(1). Within the body of the ECCN entry, the Reasons for Control are subject to further specificity with the following identification scheme: AT (antiterrorism); CB (chemical and biological weapons); CC (crime control); CW (chemical weapons); EI (encryption items); FC (firearms convention); MT (missile technology); NS (national security); NP (nuclear nonproliferation); RS (regional stability); SS (short supply); UN (United Nations Embargo); SI (significant items); and SL (surreptitious listening). 15 C.F.R. §738.2(d)(2)(i)(A). A single ECCN entry may include more than one Reason for Control.

Supplement 1 to 15 C.F.R. §738 provides the EAR Commerce Country Chart, which identifies the destination countries that require export licenses for each EAR Reason for Control. When the Country Chart is read in concert with an ECCN entry, the reader can determine whether or not an export license is required for each Reason for Control identified within the ECCN entry.

Returning to the scenario in Case Study No. 3, prior to forwarding the U.S. invention disclosures to the Indian technology center, the U.S. company must review the CCL to see if the technologies described in each invention disclosure are subject to the EAR. If the technology of a particular invention is listed in the CCL and the Country Chart indicates that an export license is required for India, then the U.S. company must seek a license from BIS based upon the Reasons for Control identified in the ECCN entry. If the technology of the invention is listed in the CCL and the Country Chart indicates that an export license for India is not required, then the invention disclosure may be forwarded to the Indian technology center with the symbol "NRL" affixed to the document. 15 C.F.R. §738.4(a)(2)(ii)(B). If the technology of the invention is not listed in the CCL, then the invention disclosure may be exported directly to the Indian technology center for preparation into a patent application. The U.S. subsidiary in Case Study No. 4 must undertake the same EAR analysis prior to sending the U.S. invention disclosures to its German parent company.

With respect to destination countries, U.S. inventors and companies must bear in mind that the EAR definition of an "export" includes the transfer of items or the release of technologies to foreign nationals within the United States. (15 C.F.R. §734.2(b)(1)); accordingly, any item or technology that is subject to the EAR that is passed from a U.S. inventor or company to a foreign national within the United States must be in compliance with the EAR even though the item or technology is not physically leaving the country.

Lastly, every ECCN entry includes a heading that identifies if the item

described in the entry is subject to an EAR License Exception and if the License Exception has any conditions and/or restrictions. 15 C.F.R. §§738.2(d)(2)(ii) and 740. One example of a License Exception under the EAR is the shipment of limited value ("LVS") exception. 15 C.F.R. §740.3. If a particular item is subject to an LVS exception, the ECCN entry will specify the value that invokes the exception. For example, the ECCN entry may indicate that items valued at \$5000 or less are not subject to an export license with the notation "LVS:\$5000." Many of the items that are subject to EAR License Exceptions relate to the software and computer arts. See, e.g., 15 C.F.R. §§740.6 and 740.13 (Licensing Exceptions for technology and software); 15 C.F.R. 740.7 (Licensing Exceptions for computers); and 15 C.F.R. §§740.8 and 740.17 (Licensing Exceptions for encryption software and equipment).

## CONCLUSION

Since the USPTO Notice was issued, U.S. patent practitioners have been commenting on numerous patent law blogs that the Notice signals the end of foreign outsourcing for U.S. patent preparation. While foreign patent preparation outsourcing centers may argue that BIS export licenses are only required for the preparation of patent applications directed to technologies that are subject to the EAR, the resources required by U.S. inventors and companies to implement EAR review of every invention disclosure may be too costly and the risk that a review does not properly identify a controlled technology may be too high to offset the monetary savings previously attributed to the outsourcing.